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**Board of Contributors:**
**Regarding Henry...**

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I suppose that I am one of the few survivors of the class that took Henry Simons's course in public finance at the University of Chicago 60 years ago, and I am certainly one of his greatest admirers. So I was pleased to see Robert Bartley recognizing on this page Simons's great influence on modern thinking about tax policy, an influence that remains 50 years after his death ("Jack Kemp vs. Henry Simons," Jan. 18). Of course, Mr. Bartley's objective was not to praise Simons but to congratulate Jack Kemp on "laying the ghost" of Simons to rest. I do not think that Mr. Kemp, or Messrs. Kemp and Bartley together, have done that -- or that Simons's argument now deserves to be dismissed. In fact, today's flat-taxers have a great debt to Simons, who was the leading advocate of a comprehensive tax system that made no distinctions among sources and uses of income.

Mr. Bartley has two quarrels with Simons -- one about progressivity in the tax system and the other about the definition of the tax base. Mr. Bartley says that Simons was "godfather of the notion that the tax system should be used to redistribute income." I don't know what it means to be a "godfather" in this connection, as distinguished from being a "father," but Simons was neither. The notion goes back way before Simons. In fact, one can hardly think of a government that does not use taxation to redistribute income. Imposing a strictly proportional property tax to finance universal free education would be a use of the tax system to redistribute income. So would Mr. Kemp's well known proposed enterprise zone plan.

What we are really talking about is progressivity in the income tax -- that is, taking a higher proportion of income from people with high incomes than from people with low incomes. Simons was not the godfather of that idea either. What Simons did was free the idea from a lot of pseudo-science with which previous economists had decorated it and get down to the basic case for progressivity.

Earlier economists had argued that because the utility of another dollar of income is smaller the larger a person's income is, taking a dollar from a rich person imposed less sacrifice than taking a dollar from a poor one. So we got the idea that a progressive income tax could minimize total sacrifice. But once we realized that there was no way to compare or add together the utilities of different people, the idea of minimizing some national total of sacrifice flew out the window.

Simons's argument for progressivity was simply, but powerfully, that he found extreme inequality unjust or unlovely and that a progressive income tax was a way to reduce inequality. That leaves everyone the opportunity to say that he doesn't think extreme inequality is unjust or unlovely, just as everyone was free to say 150 years ago that slavery was not unjust or to say today that he prefers gangsta rap to Mozart. (Am I revealing prejudices here?)

We have a procedure for deciding whether inequality is unjust, or how much is unjust. It is called democracy. Simons said, about such questions of values: "Society is always right -- provided it is the right kind of society. The social processes of a free society are, if not infallible, the only reliable means to moral truth and the best means to security under law." The current discussions of tax reform, and of welfare reform and other related matters, are part of a process for finding out what the society does think about inequality and the ways to mitigate it. But it is not permissible to rule such questions out of order as if the use of the tax system to redistribute income were not a legitimate function of government.

As far as I can see, none of the tax reform proposals now in circulation would reject progressivity. The flat tax would have two rates -- zero and some positive number, say 20%. People with incomes below the personal exemption would pay zero tax, people with incomes twice the exemption would pay 10% of their total income, people with 10 times the exemption would pay 18% of their total income, and people with 100 times the exemption would pay 19.8%. Is that too little progression, or too much, or just right? We shall see what "society" thinks, and must hope that the issue will be presented truthfully and without claims to know what we do not know.

What Simons would think today is the proper degree of progression, I don't know. I will, however, offer one law derived from 60 years of observation since I took his course: Whatever is the existing degree of progression, people who pay the top rate will think it is too much,

I don't think Mr. Bartley is correct in saying that Simons chose the definition of the income to be taxed in order to "facilitate the reduction in economic inequality." I think the basic consideration here was that people who are equal according to some relevant criterion should be taxed equally. This raises the question of what is the relevant criterion. Simons said that it was the sum of the taxpayer's consumption plus the addition to his net assets.

Again, there doesn't seem to be any objective way of demonstrating that this is or is not the relevant criterion. If Mr. Bartley said that people should be taxed in proportion to their weight, I wouldn't know

 

how to reply except to say that I don't agree. The main alternative to taxing income is taxing consumption, and "society" will decide which is the relevant criterion. The question is whether a person who has an income of, say, $200,000 and spends on consumption $40,000 should be taxed like a person who has an income of $40,000 and spends $40,000 on consumption or like a person who has an income of $200,000 and spends $200,000 on consumption. Presumably in the coming debates the American people will face that question and give an answer.

Messrs. Bartley, Kemp and others try to give an answer to that question in terms of the effects on the growth of production. Simons certainly thought that was important. He said, after discussing redistribution, "However, our primary problem is production." But here we encounter quantitative questions that Simons did not answer and that Messrs. Bartley, Kemp, et al. have still not answered. How much additional growth do we get for how much less redistribution, and who are the beneficiaries of that growth?

Without at least some guesses about those things we cannot think intelligently about whether the trade-off of some equality for some growth is worthwhile. Expansive assertions about growth are not helpful. Obviously, we don't do everything possible to promote growth, and shouldn't.

One word missing from Mr. Bartley's critique of Simons on taxation is "adequacy." If we didn't need some revenue, the tax problem would be simple. We face the prospects of enormous deficits in the next century with present taxes and expenditure programs. Responsible decisions about taxes can be made only in the context of some ideas about how far expenditure programs, which realistically means Social Security and Medicare, can and should be restrained. Until we see this side of the picture, we will not know what to make of any of the tax reform proposals now on the table.

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A former chairman of the president's Council of Economic Advisers, 1972-74, Mr. Stein is an American Enterprise Institute fellow.

(See related article: "...Here's His Take On the Flat Tax" -- WSJ Jan. 30, 1996)

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